THE EFFECT OF JAPANESE GOLD PURCHASES ON THE U.S. BALANCE OF TRADE

A REPORT BY

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The record U.S. trade deficit in July and the near-record deficit in June, as announced by the Commerce Department, actually understated the severity of the U.S. trade imbalance with Japan and the rest of the world. Because of the way the Commerce Department accounts for the "re-export" of gold imported and stored in the United States, Japanese purchases of nearly $3 billion worth of gold bullion were credited with increasing U.S. exports to Japan by 108 percent in June, and by 45 percent in July.

The surge in Japanese buying, for the minting of a new gold coin, was a one-time-only phenomenon, an acquisition of bullion which did not necessarily belong to Americans, was not necessarily produced here, and did not significantly affect the Gross National Product. Nonetheless, the acquisition counted as a U.S. export to Japan. Such transactions are listed by the Commerce Department as re-exports, which, like damaged imports being returned and also listed in that category, contribute little or nothing to the U.S. economy, even though they swell the obstensible U.S. export total.

These appear to be the facts, as determined by JEC staff investigation:

* The Japanese government is planning to mint 10 million gold coins to commemorate the 60th anniversary of the rule of

Emperor Hirohito Each coin will contain 20 grams of pure gold. At 0.7 ounces for each 20 grams, Japan will need 7 million ounces to mint the planned number of coins.

* According to Commerce Department records, the United States has re-exported 6,496,552 ounces of gold to Japan since January 1, 1986, all but about 90,000 ounces being shipped in June and July. The Japanese paid a total of $2.976 billion for this gold, $2.913 billion of that amount being credited as U.S. exports in June and July ($2 billion in June and $913 billion in July).

* The Commerce Department explains the seemingly high price, averaging $458 an ounce, by saying it includes the cost of transporting the gold across the United States, and the extraordinarily high insurance rates for such shipments.

All of the gold purchased was, technically, a re-export. Commerce Department records show the gold was listed as having been imported into the United States and being stored here when sold. Department record-keeping does not reveal the origin of the gold, when it was imported, or the ownership. It may even have been gold mined in the United States, shipped abroad, and returned; the importation may have taken place months or years before the re-export to Japan. What seems clear is that there was no contribution to the U.S. economy in terms of the mining and production in recent times, if at all. Whether ownership was retained in foreign hands or transferred to U.S. citizens or banks also cannot be determined. Even if ownership was in U.S.

hands, the transaction was essentially a wash since nothing was added in the purchase of an already negotiable commodity. If ownership was in foreign hands, there was, in effect, a balance-of-payments outflow. At best, the gold purchase seems likely to have contributed no more to the U.S. economy than the sales commissions and shipping and insurance costs.

A major U.S. bank acted as purchasing agent for the Japanese; the Commerce Department has not divulged the identity. The Japanese Embassy says gold purchases were made on the open market in London, Geneva, and New York. It has not been explained why gold stored in the United States accounted for so large a portion of the purchases needed to fulfill the coining needs.

There is no question of the legitimate purpose of the Japanese transactions. But the fact that the bulk of the purchases came out of U.S. storage vaults has had the effect of making the U.S. trade deficit with Japan seem smaller, as well as making the overall U.S. trade deficit look better than reported.

The transactions served to sharply increase listed U.S. exports to Japan in June and July, and to lower the deficits in trade with Japan. U.S. exports had averaged slightly less than $1.9 billion a month during 1985, and were $1.73 billion in May of 1986, just before the gold-buying surge. In June, with the Japanese buying $2 billion in gold bullion, exports soared to $3.86 billion. In July, with the help of a $913 billion gold purchase, exports totaled $2.94 billion.

Without the re-exports of gold, the deficit in U.S. trade with Japan would have been $5.69 billion, not the $3.69 billion reported in June; it would have been $6.41 billion, not the $5.50 billion reported in July. The real overall U.S. trade deficit could have been close to $2 billion higher than the $14.2 billion reported for June, and closer to $19 billion than the record $18 billion reported for July.

One other thing seems clear. The Japanee gold-buying surge seems to have run its course. Its cosmetic contribution to the appearance of a rise in U.S. exports to Japan is not likely to be repeated.